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Chapter 23

FINANCES

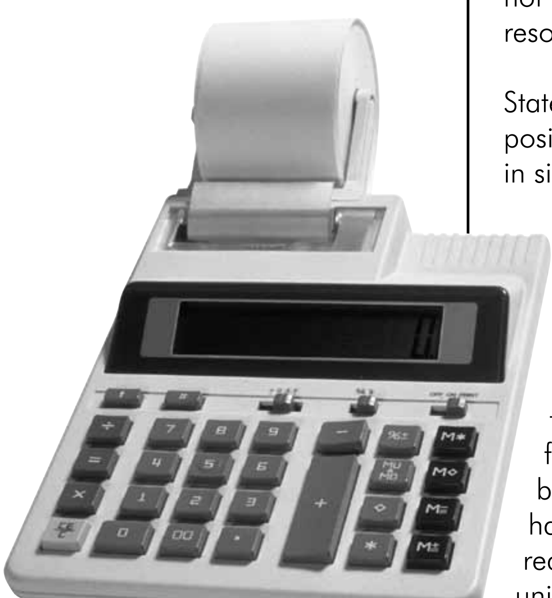
EMERGENCY FUNDS

Foreign Service life contains many potential situations in which funds may be needed quickly and in substantially greater amounts than usual: extended travel, paycheck problems, pet shipment, evacuation, medical emergencies, disability or death of the employee, change in family structure, or geographic separation of family members for educational, career, or personal reasons.

People with overseas experience recommend having immediate access to cash in amounts equal to two weeks worth of living expenses. While posted abroad, keep U.S. currency and small denominations of the local currency hidden in case of emergency. Travelers checks, when kept separately from the receipt, can be replaced in case of theft, but cannot be easily used in some countries. Inquire at post.

Other liquid assets may prove useful as well. These include credit cards in your own name, credit rating sufficient to negotiate a loan, U.S. Government bonds or other securities, money market funds, and cash value of insurance policies. You can establish a line of credit with a bank or credit union that is almost the same as a pre-negotiated loan and can be drawn upon when needed; be sure that access to these funds does not depend on the employee signing. Experts recommend access to resources equal to living expenses for at least three months.

State laws vary on joint checking and savings accounts and safe deposit boxes. Many states close joint accounts and safe deposit boxes in situations in which a lawsuit is pending, one member is permanently disabled, or one of the signatories dies. This could mean limited access to funds and important papers, including securities and bonds or life insurance policies kept in safe deposit boxes. Some states close joint bank accounts until a will is probated.



Foreign Service families should plan in advance for access to funds—both for the short term and for the long term—by all adult family members. Look into state laws as well as restrictions imposed by banks and security firms. Consider using a power of attorney to handle some situations. In other cases, separate accounts may be required due to state laws governing access. Many banks, credit unions, and other financial institutions now offer services that benefit

Foreign Service families immensely, including online banking options, 24/7 account access via telephone or Internet, and instant loan approvals. Investigate to find the options that will best meet your needs and those of your family.

SAFE DEPOSIT BOXES

A safe deposit box provides an excellent storage place for important papers. Many financial institutions, including the State Department Federal Credit Union, offer boxes. You may need to shop around to find one that is available immediately or be prepared to put your name on a waiting list. Other establishments offer safe deposit services that are more extensive, but usually more costly, than those of financial institutions.

In some states the safe deposit box is sealed upon the death of one owner until the tax authority has assessed the financial value of the contents. You should determine whether this or any other restrictions apply to the box you rent. In general, one should not store unregistered property that belongs to others (such as jewelry or bonds issued "to bearer") in a safe deposit box. Original wills should be left with a lawyer or some other trusted person. Cemetery deeds and letters of last instruction, needed quickly in the event of a death, should be kept in a safe, accessible place other than a safe deposit box.

Some Foreign Service families add the name of a trusted friend or relative to the signature card for their safe deposit box while they are overseas. Exercise caution: if the relationship changes, it may be difficult to remove the co-signer. In some states, the only way to change a co-owner is to close the box.

CREDIT RATING

Everyone should have access to credit in his or her own name. You do not have access to credit established in another person's name if that person is unable to sign for it. A Foreign Service spouse without personal credit may be placed in a difficult situation if anything happens to the employee or the couple separates. Credit card issuers can cancel cards even if there are other authorized users. Loans paid off by allotment from the employee's salary may be called in if the employee resigns or dies.

How does an individual with limited or no income establish credit? The first step is to open an account at a bank or join a credit union in your own name. Then apply for a credit card (such as Visa or MasterCard), a line of credit, or a loan. If an application for credit is turned down, the applicant has the right to know the reason. Any outside sources of information that prejudiced the application must be disclosed. If the applicant is not satisfied with the explanation, she or he should speak to the credit manager or department head.

For any joint account opened after June 1, 1977, the creditor is obligated by law to report credit information for each name on the account. If the account was opened earlier, determine how credit information is being reported. Request that it be reported for each name if this is not happening.

For the purpose of establishing a credit record, it is a good idea for a couple to take out major personal loans (auto, home, etc.) in both names even if one spouse is not employed. Because both parties are liable for payment, this should be for something jointly desired.

Credit bureaus collect information from banks, stores, and businesses and sell it to credit issuers. A good credit rating is an invaluable asset in times of transition or need. You can get one free copy of your credit file disclosure, often called your credit record, every 12 months from each of the nationwide consumer credit reporting companies: Equifax, Experian, and Transunion. You can either get all three reports at once (which allows you to compare them), or spread out your requests in order to keep up with any changes or new information appearing in your file.

Request the free report online at www.annualcreditreport.com or by telephone (877) 322-8228 (toll free). TDD service is available at (877) 730-4104.

If you find an error, the credit bureau must report this to any credit issuers that received your file within the

previous six months. If the credit bureau does not accept your view of the situation, you have the right to place a statement of your version in your file.

INVESTMENTS

The overall purpose of investing is to accumulate assets. Specific goals may include purchasing a home, educating your children, or providing for your retirement. Almost anything you own—stocks, bonds, your home, a car—may be considered an asset. It is helpful to categorize your assets according to whether you are using or consuming them, or whether you are managing them to provide financial income or growth. Your car and household furnishings would belong in the first category—assets being used or consumed. A mutual fund would belong in the second category—assets intended to provide a financial return. Ordinarily investing involves only the second type of asset.

Making proper use of your checking account, savings account, and credit cards plays a part in short-term money management. Investing, by contrast, should generally be thought of as a long-term activity. Your investment goals may take decades to achieve.

Types of Investments

There are numerous kinds of investment vehicles. Several of the most common are described below.

Certificates of Deposit (CDs). Banks issue CDs for money invested with them for set periods of time. CD maturities may range from three months to five years. CDs typically pay interest at higher rates than ordinary savings accounts, particularly when the CDs have long maturities. You may pay a penalty if you redeem a CD before its maturity date, although some financial institutions now permit one change to the account at no charge. The Federal Deposit Insurance Corporation, an agent of the U.S. Government, insures bank deposits, including CDs, for up to $100,000 per account.

U.S. Savings Bonds. Bonds may be purchased at banks, through a payroll savings plan, or online at Treasury Direct (www.savingsbonds.gov). Bonds must be held at least one year, and a three-month interest penalty applies to bonds held less than five years. Savings bond interest is exempt from state and local taxes, and federal tax can be deferred. The Savings for Education program allows federal tax on earnings to be excluded completely if the bond owner pays higher education expenses in the same year as the bond is redeemed. This program applies to I bonds or Series EE bonds issued after 1990, and certain conditions must be met.

Since 2005, Series EE bonds earn a fixed rate of interest that applies for the 30-year life of the bond. Electronic EE bonds are sold at face value ($50 for a $50 bond) and can be purchased in amounts of $25 or more. Paper EE bonds are sold at half of face value ($25 for a $50 bond) and can be purchased in eight set amounts. I bonds offer interest for up to 30 years based on a fixed rate plus an inflation rate based on the Consumer Price Index. You can never lose money investing in an I bond. Both types of savings bonds offer an extremely safe method for investing but have little potential to provide for growth of your assets.

Treasury Securities. The U.S. Government issues Treasuries, with a minimum purchase of $1000. Treasury bills, or T-bills, are short-term securities with maturities of up to 26 weeks. They are sold at a discount and you receive the face value upon maturity. Treasury notes have maturities of 2 to 10 years and earn a fixed rate of interest. Treasury bills are an excellent way to invest money for short-term purposes, with little risk. Longer-term Treasury notes and bonds will offer higher interest rates but also expose the holders to possible capital losses if sold prior to their maturity.

Stocks. A stock is a share of ownership in a company. As a stockholder you may receive dividends, which are a share of the company's profits, growth from increased value of the stock when you sell it, or both. Your "total return" consists of dividends re-

ceived added to capital gains or growth. Depending on the fortunes of the company, you may or may not receive dividends or gains.

Bonds. A bond is essentially an IOU issued by a company or governmental agency. When you buy a bond, you are lending your money to the issuer. In return, you receive bond interest for the life of the bond. Upon maturity, your principal, or the amount originally invested, is to be returned to you. Bonds are rated according to the creditworthiness of their issuers. U.S. Treasury bonds and those issued by large, well-established companies enjoy high ratings. Lower-rated bonds are sometimes called "junk bonds." These bonds pay higher rates of interest because of their issuers' relatively lower credit ratings.

Hard Assets and Collectibles. Gold, other precious metals, art objects, baseball cards, and various other items may be included in this category of investments. There are fairly well-established markets, including mutual funds, for investing in gold and silver. Gold is often considered an "inflation hedger" in investment planning in the belief that when inflation threatens the economy, the price of gold will rise because of its inherent value. Less credence is given to this theory nowadays, however, in part due to the complexity of global money markets. In general, investors should not enter this domain without solid knowledge of what they are doing.

Mutual Funds. A mutual fund is an investment company chartered under federal law. Mutual funds pool the money received from investors and invest in various types of securities. The most common type of mutual fund is "open-end," which means its sponsor offers to sell and redeem shares on a continuing basis. "Closed-end" funds, by contrast, issue a fixed number of shares that are then traded on markets like other securities. Mutual funds typically invest in stocks, bonds, and related securities. Funds accordingly vary in the degree of risk and reward they present to investors. At one extreme would be "aggressive growth" funds investing in new or other relatively speculative stocks. At the other extreme would be a fund investing in conservative bonds or Treasury securities. Investors should select the fund or funds best suited to their individual circumstances.

Traditional Individual Retirement Arrangements (IRAs). A traditional IRA allows anyone under the age of 70 1/2 with earned income to contribute up to $5,000 a year ($10,000 for joint filers), depending on age and earnings. The biggest benefit of a traditional IRA is that your investment grows tax-deferred until you are required to begin withdrawing money at age 70 1/2. If you have a retirement plan at work and your spouse does not, the non-covered spouse's contributions are tax-deductible. You should be aware that IRS penalties may apply if you withdraw money from your traditional IRA prior to age 59 1/2. However, these penalties may be waived if you withdraw the money under certain conditions: for eligible higher education expenses, up to $10,000 toward a first home purchase, or to pay qualifying medical bills, for example.

Roth IRAs. A Roth IRA allows your investment earnings to grow tax-free. You make after-tax contributions to your Roth IRA, as long as your modified adjusted gross income is below a certain level. In turn, you will not have to pay IRS penalties or income taxes on the investment earnings at the time of withdrawal if the money has been in your IRA for at least five years *and* you meet one of the following conditions: you are 59 1/2 or older; the money is used for a first-home purchase, within limits; or the withdrawal is due to death or disability. Another strong feature of the Roth IRA is that withdrawal of earnings will be IRS penalty-free, but not tax-free, when used for higher education expenses even if made within the first five years. A final benefit of the Roth IRA is that, unlike a traditional IRA, you do not have to start making withdrawals when you turn 70 1/2.

529 Plans. A 529 plan is an investment plan operated by a state or educational institution designed to help families save for future college costs. As long as the plan satisfies a few basic requirements, the federal tax law provides special tax benefits to you, the plan participant (Section 529 of the Internal Revenue Code). Every state now has at least one 529 plan available, and in many cases you do not need to be a state resident to enroll. However, you may receive additional state tax benefits by choosing your local plan.

A 529 plan is usually categorized as either prepaid or savings, although some have elements of both. A prepaid plan guarantees a certain number of years of tuition. A savings plan has no guaranteed outcome, although many are backed by the states that offer them.

These plans offer a number of advantages:

- **Income tax breaks.** The investment grows tax-deferred and distributions are federal tax-free until 2010 (if the law is not extended, distributions will be taxed to the beneficiary after that).

- **Donor control.** The named beneficiary has no rights to the fund, and owners can change the beneficiary.

- **No upper income restrictions.**

- **Generous plan contribution limits.** These reach $319,000 per participant in some states—much more than you could amass with other savings devices.

Coverdell Education Savings Accounts. The Coverdell education savings account is a very attractive college savings vehicle for many people, including families that wish to save for elementary and secondary school expenses. Like a Roth IRA, a Coverdell account allows you to make an annual non-deductible contribution to a specially designated investment trust account. Your account will grow free of federal income taxes, and, if all goes well, withdrawals from the account will be completely tax-free as well. You will need to meet certain requirements in the years you wish to make the contributions and take withdrawals.

Annuities. In general, an annuity is an arrangement in which you contribute money now in return for receiving periodic or lifetime payments in retirement. Life insurance companies and other financial institutions issue annuities. The advantage is that earnings on amounts contributed are tax-deferred until withdrawn. However, restrictions apply to withdrawal of your money, and a penalty is payable in most cases if the money is withdrawn before age 59 1/2. Fixed annuities earn specified amounts of interest and offer a wide variety of investment objectives.

Risk and Reward. Risk and reward are inextricably linked in investing. In simple terms, risk refers to the chance that you may lose some or all of the money you invest. Your tolerance for investment risk will be determined in part by your financial circumstances, including the overall level of your wealth and any discretionary assets. It may also be determined by your general tolerance for risk, for example, whether you are more cautious or aggressive in your personal life style.

Your investments should be selected to provide the best mix of risk and reward possible. It is generally impossible to find an investment that may deliver a high return without also assuming a correspondingly high degree of risk. Bank certificates of deposit (CDs), for example, are very safe because they are federally guaranteed up to certain limits. However, CDs will not provide income much above the rate of inflation and taxes.

The market value of investments may fluctuate over short-term periods. A stock market index will go up or down several points from day to day, sometimes without any obvious reason. When investing, however, you seek to take advantage of long-term trends that will, over time, increase the value of your assets. Investing, therefore, typically requires considerable patience on the part of the investor.

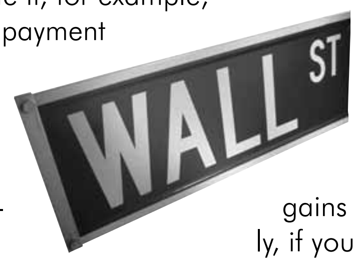
Investment Strategies

An optimal investment strategy might be described as one that combines maximum return with minimum risk. In practice, as indicated above, you need to plan your investments to provide the optimum mix of risk and reward for your situation. Consider the following strategies.

Time Frame. The first strategy is to plan your investments with an eye to the time frame of your investment objectives. When you need the money should influence your choice of investments. If you are investing for a need 10 years away, for example, you can afford to be relatively aggressive. A portfolio for this purpose might well include all or a substantial portion of stocks or mutual funds investing in stocks. With the long investment period, the chances are good that any unfavorable downturns in the stock

market will have worked themselves out, and significantly positive results will have been achieved. This more aggressive, long-term type investment strategy might be suitable if you wish to save for a young child's college education, or if you are planning for retirement in 10 to 20 years or longer.

If investing for shorter periods, three to five years for example, you might combine a blend of 50 percent stocks and 50 percent bonds, CDs, or other similar income producing securities. Your expected return would be less, but your chance of losing significant amounts of money would be reduced as well. This type of strategy might be appropriate if, for example, you were saving money for a down payment on a home or planned personal travel in a few years. For periods of less than three years, your money should be mostly put into CDs, money market accounts, Treasury bills or notes, or other income-producing assets.



Diversification. The second recommended investment strategy is related; diversify your investments. Diversification reduces the risk of loss in your overall portfolio while still permitting significant investment returns. Diversification can be achieved by combining appropriate classes of securities that do not necessarily move in tandem with each other upwards or downwards.

A well-diversified portfolio, for example, might include small company stocks, large company stocks, bonds, and international stocks (or mutual funds embodying the same mix). If U.S. stocks rise, part of this portfolio would go up. If international stocks rise, that part of the portfolio would rise even if the U.S. stocks did not. These different types of securities will not necessarily rise or fall in value together. Diversification is not a perfect hedge against investment loss. However, it can help protect against large losses while still providing an opportunity for significant returns. By using techniques of modern portfolio theory, securities can be combined into portfolios whose collective risk is smaller than their individual components.

Mutual funds would be a good way for many people to carry out a diversified investment program. Mutual funds offer a degree of diversification not attainable with most portfolios of individual securities. Funds provide professional management, comprehensive reporting, and other valuable shareholder services as well. Some funds charge high fees and management expenses, so check the prospectus carefully before investing in any fund, always remembering that past performance does not necessarily predict future results.

Investment Returns. There are no assured returns from investments. One way to estimate the return from your investments is "The Rule of 72." In this rule, if you divide 72 by the average annual return from your investments, the result is the number of years it will take for your money to double. (This calculation assumes reinvesting any dividends and capital gains and does take taxes into account.) Conversely, if you divide 72 by the number of years until your money is needed, you will get the average annual return you must achieve with your investments.

Managing Taxes. For investment purposes, remember that income from dividends and interest is taxed at ordinary income rates, which historically have been higher than the federal rates for capital gains.

Earnings from traditional IRAs, the federal Thrift Savings Plan (TSP), and certain other retirement plans are taxed at ordinary income rates when money is withdrawn. This is true whether or not any of the earnings were actually derived from capital gains. One implication for IRAs is that investments that produce earnings each year taxable at ordinary income rates should be placed inside IRAs whenever appropriate. Investments that produce capital gains, particularly on a less-frequent basis, should be invested outside IRAs.

Notwithstanding the nature of taxation of retirement plans, money invested in the TSP and similar plans offered by other employers should ordinarily be invested for long-term growth, particularly for younger employees. This means allocating a substantial portion of the funds to growth-oriented investments that typically produce much of their returns from capital gains.

Sources of Information

Several U.S. Government commissions provide financial education and information on investing (see "Resources," below). IRS publications now appear online as Web pages or PDF files. Numerous periodicals, books, media programs, and investment rating services also provide investment information, although users should evaluate materials carefully.

Some people feel comfortable handling their investments themselves. Others prefer to engage a financial planner or similar advisor. Foreign Service personnel overseas may find it particularly useful to engage the services of a financial professional to help them plan and monitor their investment activities, as appropriate. When considering engaging such a person, inquire about his or her background and professional qualifications and method of compensation. The Certified Financial Planner Board of Standards offers a list of suggested questions and an interviewing checklist.

REAL ESTATE

Many Foreign Service people own or hope to own real estate. Careful planning and research can make a difference if you need to buy a home quickly or manage rental property from overseas—situations that Foreign Service people commonly face.

The first step in purchasing a property is to find out what you can afford. You can research mortgages even while overseas. The Government National Mortgage Association offers information on the different types of mortgage products, as well as various online calculators (www.ginniemae.gov). You can apply for mortgages online, but be aware that multiple applications negatively affect your credit rating.

Next, consider getting in touch with a realtor in advance. The realtor should be someone recommended to you by a person whose judgment you trust. In order to help you effectively, the realtor needs to know your housing requirements (number of rooms, special facilities, access to schools, and public transportation, etc.) and your financial data (income, assets, and liabilities). This kind of advance dialogue will make you a more educated buyer and will speed up the process of finding a home when you arrive.

Research the tax implications of each locality you are considering. Jurisdictions vary widely in the kinds of taxes they levy and in how they deal with residents who claim domicile elsewhere. When it comes to the actual purchase, some people take the precaution of having a lawyer read any contract they intend to sign. Preferably the lawyer would be someone who normally handles real estate matters. Another kind of protection available to the buyer is title insurance.

Managing property you own from far away, especially from overseas, can be difficult. Most people use the services of a property manager or the management department of a real estate firm. It is important to locate a manager in whom you have confidence.

Obtain a written management contract that clearly spells out the manager's responsibilities. Include provisions in the contract for adequately supervising the property, making timely repairs, checking with you before making nonemergency expenditures, depositing rental income to your account promptly, and returning security deposits within a specified period after a tenant moves out.

Be sure your property manager will assume the obligation of working out any problems with a vacating tenant. The manager should inform you or your lawyer immediately if the tenant is uncooperative. Once a tenant leaves the area, it can be quite difficult to collect unpaid rent. If your tenant breaks the lease and moves out while you are away, he or she is still liable for the rent for the unexpired period of the lease or until you find a new tenant at the same or greater rental. As landlord, however, you are under a good faith obligation to seek a new tenant.

A good management contract should be sufficient to allow the agent to take care of routine matters. In this age of improved communication there is no reason to leave a power of attorney for these matters. If one is needed—for example, to refinance—then one can be sent for execution.

Most people use a pre-printed lease provided by the property manager or real estate agent. Read the lease over carefully. Some clauses are required by law, but many are a matter of private contract and can be changed to meet your special needs. For instance, Foreign Service families should have a can-

cellation clause to allow them to repossess the home if they are required to return to the Washington area. If you have to make use of the cancellation clause, be sure that you provide notice exactly as set out in the lease and that your notice is clear and understandable.

Other terms to consider for inclusion in a lease:

- What will and will not remain in the house or apartment.
- An established time limit for return of the security deposit after inspection by the owner or owner's representative. (The security deposit should not be accepted as the final month's rent.)
- An agreement that the house or apartment will be inspected by the owner's representatives at least twice a year.
- Special requirements such as lawn care, and names of companies to be used for maintenance and repairs (or the requirement that realtor use reputable companies).

Other steps to take before you leave:

- Provide the mortgage company, termite inspection company, insurance company (if paid separately from mortgage), service contract companies, and any others with the name and address of the person or firm who will be handling payments for you. If possible, have correspondence sent to both the management address and your overseas address. Most mortgage services can use dual mailing addresses, and this will prevent problems if the manager is slow in dealing with problems.
- Be sure that the tax bill will be sent directly to the person, firm, or bank that will handle your tax payment. Avoid the serious problems that can occur when your tax bill is improperly addressed and does not get paid on time.
- Convert homeowner's insurance to fire and hazard (extended coverage, broad form). Request an owner, landlord, tenant (OLT) liability on the insurance policy.
- Provide the property manager with data on appliances (model, age, where purchased, service agreements or warranties). Disclaim responsibility for old appliances.
- Provide written instructions for tenant and manager, including location of fuse box and water cutoff and any special information about your home.
- Arrange for a friend or neighbor to check on the house periodically.

There are a number of tax considerations in owning and selling real estate. It is to your advantage to research this area thoroughly. There are many IRS publications that can help. The *Foreign Service Journal* (published by AFSA) contains an annual tax update with information of particular relevance to Foreign Service taxpayers (www.afsa.org). If you plan to rent your residence while on overseas assignment, you should be aware that tax treatment can be quite complex. Common mistakes include: deducting mortgage interest twice, as a personal deduction and then as a rental property expense; miscalculating the "basis" for depreciation by including the value of the land or certain expenses; or failing to claim depreciation, which will be taxed upon sale of the property whether or not you claim it. You may wish to seek advice before you go overseas.

RETIREMENT

It is now a fact of life that everyone, even the new young professional, needs to plan for retirement. Further, because some Foreign Service families leave the service early, retirement planning is useful as a contingency measure. Financial and estate planning, choice and location of future residence, life style and interests, post retirement employment, volunteer activities, and anticipated health needs are all factors that employees, spouses, and their families should consider.

Once you are ready to retire, the Department of State Office of Retirement suggests beginning the process at least six months in advance if assigned overseas or at least three months in advance if assigned to the U.S. to complete departmental planning, arrange clearances (including medical), and process an application for retirement.

Information

There is a wealth of retirement information available to employees with retirement questions.

- You can get a document called "Steps to Retirement," by going to http://hrweb.hr.state.gov/ret/FSPlanning.html (State Department intranet) and selecting *Retirement Guide for Foreign Service Employees*.

- RNet (http://www.rnet.state.gov/) covers most retirement topics. Despite the appearance of the homepage, no logon is required. Go to the column on the left for resources that you can use without registering. "My Retirement" gives information for each retirement system and "Forms" has everything you need to get started.

- AskRNet, on the State Department intranet, features frequently asked questions and answers about retirement, including the most arcane situations. Go to http://hrweb.hr.state.gov/ret/Index.html, then click on AskRNet in the left column.

- The FSI Transition Center offers several courses that help employees with retirement issues. Department of State employees within five years of retirement eligibility (and their spouses on a space-available basis) may take a four-day Retirement Planning Seminar (RV101).

  For new and mid-career employees, there are two courses embedded in the Retirement Planning Seminar that are useful: Financial Management and Estate Planning (RV103); and Annuities, Benefits and Social Security (RV104). The latter course also contains information about the Thrift Savings Plan and the Federal Long Term Care Insurance Program.

- The Transition Center's Training Division provides another opportunity to address questions related to retirement through the Regulations, Allowances, and Finances course (MQ 104).

Foreign Service Pension System

Employees hired after January 1, 1984, participate in the new Foreign Service Pension System (FSPS) that requires employee contributions to Social Security and the Foreign Service Retirement Fund.

The Foreign Service Pension System is a three tiered federal retirement system:

1) Foreign Service Basic Annuity
2) Social Security and
3) Thrift Savings Plan.

Each pay period, mandatory deductions are made from your salary and go to the Foreign Service Retirement Fund and Social Security. You may choose to contribute to the Thrift Savings Plan, the third tier of FSPS.
Employees covered by FSPS contribute 1.35 % of basic pay up to $90,000 (in 2005) to the Pension System. This contribution is made only from the basic salary rate and does not include any overtime or differential pay.

Once an employee has at least 18 months of FSPS service s/he is vested for disability and survivor benefits under FSPS. An employee with 10 years of service is vested for survivor annuity under FSPS. A survivor can be a spouse, former spouse, or child/children.

Social Security and Medicare

Everyone, including children, should have a Social Security card. If you do not have one, you may apply for it overseas through the consular section of the U.S. Embassy or Consulate. In the United States, you must complete an "Application for Social Security Number Card" (Form SS 5 that you can request by telephone from any Social Security office or under *Forms and Publications* online at www.ssa.gov) and then mail or take it to a Social Security office. New rules were implemented in March, 2006, with special requirements for non-U.S. citizens. Check the Social Security Administration website for details.

In general, Foreign Service employees who entered the service before January 1, 1984, and participate in the "old" retirement system (Foreign Service Retirement and Disability System) are not entitled to

Social Security retirement benefits unless they or their spouses have acquired Social Security credits through other employment. Employees in the "new" retirement system (Foreign Service Pension System) have contributions to Social Security deducted from their pay.

Persons who have worked in jobs covered by Social Security (or who have paid Social Security taxes based on self-employment) and have acquired at least 40 quarters of Social Security credit are eligible to apply for Social Security retirement benefits when they reach age 62. Quarters are based on the amount of income earned rather than on the calendar year, although no more than four quarters of credit are counted for any year. This method of calculation benefits family members engaged in part-time or temporary work. Such family members should report earnings and pay Social Security tax (Schedule E of Form 1040). Even if you are eligible for the foreign earned income exclusion from federal income tax, you should investigate paying Social Security tax as a self-employed person.

It is your responsibility to be sure that the income on which you have paid Social Security tax is accurately credited to your name. Each year a Social Security statement is sent to all workers age 25 or older not yet getting Social Security benefits on their own records. Your statement will arrive about three months before your birthday. This statement will show a year-by-year display of reported earnings. If you find any errors, contact Social Security right away to correct the record.

Retirement benefits are only one part of the Social Security system. Additionally, there are disability benefits and survivor's benefits for qualifying workers and their family members.

The government pension offset reduces Social Security spouse's or surviving spouse's benefits for people who receive a pension based on their own work for federal, state, or local government that is not covered by Social Security. The offset does not affect benefits you would receive based on your own Social Security record but only those you would receive based on your spouse's record. The offset is applied against two thirds of the pension for people who first became eligible for a government pension after June 1983.

Anyone who is 65 and receives Social Security retirement benefits is automatically eligible for Medicare, a federal health insurance program that includes both hospital and medical insurance. Since January 1, 1983, federal government employees have had the Medicare hospital insurance portion of the Social Security tax deducted from pay. Federal employees are entitled to Medicare hospital insurance at age 65 provided they meet certain eligibility requirements, but they must apply for it. Under certain circumstances, the spouse and other family members of a federal employee may be entitled to Medicare hospital insurance as well. Those eligible for Medicare should apply three months before their 65th birthday.

The medical insurance portion of Medicare is optional and is available for a monthly premium. Medicare hospital insurance can also be purchased by those who do not qualify to receive it as a benefit.

If you are eligible for both Medicare and Federal Employees Health Benefits (FEHB) health insurance, you should consult your agency's health insurance officer or a representative of your FEHB plan to determine the options and regulations that apply to you.

To retain Federal Employees Health Benefits (FEHB) and Federal Employees Government Life Insurance (FEGLI) after retirement, the employee must have had coverage for the five years prior to retirement or from the first possible opportunity to enroll. FEGLI declines in value after retirement unless the retiree pays increased premiums.

Thrift Savings Plan

The Thrift Savings Plan is a long-term savings and investment program for federal employees designed to provide retirement income. After an initial waiting period (the length of which is determined by the date of hire), the employing agency will automatically begin to contribute each pay period an amount equal to one percent of basic salary to a Thrift Savings Plan account in the employee's name. This contribution does not come out of salary; it is an automatic agency contribution.

Employees may also choose to contribute to their TSP accounts. This is an entirely voluntary contribution,

whereas the Foreign Service Basic and Social Security are mandatory deductions. The employing agency will make a matching contribution on a sliding scale for the first five percent that the employee contributes. If the employee chooses to contribute more than five percent there is no further agency matching.

Most financial planners encourage employees to maximize their contributions to the TSP throughout their careers.

There are two tax advantages to the Thrift Savings Plan. First, contributions are on a before tax basis. This means that the contribution is deducted from salary before income taxes are calculated, thereby reducing taxable income and the amount of tax owed. Second, the money contributed to the Thrift Plan account, along with all the earnings generated, is tax deferred. No income tax is paid on this money until it is withdrawn from the plan, usually after retirement.

Employees receive a Thrift Savings Plan booklet prior to the first opportunity to contribute to the plan. It contains detailed information about all aspects of the plan. Additional information is available online at www.tsp.gov.

Civil Service Retirement Spouse Equity Act of 1984, Public Law 98 615

(Also Applies to Foreign Service)
Public Law 98 615, the Civil Service Retirement Spouse Equity Act of 1984, dated November 8, 1984, and effective May 7, 1985, amends the Civil Service Retirement Law in several significant respects. It provides additional survivor election opportunities to retiring Civil Service employees and annuitants. The major provisions of PL 98 615 applicable to Civil Service employees:

- Permit employees retiring on or after May 7, 1985, to elect survivor annuities for former spouses at and after retirement if the marriage is dissolved on or after May 7, 1985;

- Require OPM to comply with a qualifying court decree or order that provides a survivor annuity for a former spouse from whom the employee or annuitant who retired on or after May 7, 1985, was divorced on or after May 7, 1985;

- Require the written consent of an employee's current spouse before that employee can elect an annuity without full survivor benefits;

- Require that an employee notify his or her current spouse and former spouses from whom s/he was divorced on or after May 7, 1985, when applying for a refund of retirement contributions;

- Bar payment of refund or retirement contributions if a qualifying court order or decree provides for annuity payments to a former spouse;

- Change to 55 the age at which certain survivor annuitants (spouse died in service or retired on or after May 7, 1985) can remarry without losing benefits;

- Change the marriage duration requirement for widows/widowers to nine months when the employee dies in service or retires on or after May 7, 1985 (formerly one year);

- Allow married employees in good health to elect, at time of retirement, an "insurable interest" survivor annuity in addition to survivor annuity provided for a current or former spouse (formerly available only to unmarried employees);

- Provide Federal Employees Health Benefits coverage to certain former spouses of employees and annuitants whose marriage was dissolved on or after May 7, 1985.

Detailed information regarding the above provisions is available from the U.S. Office of Personnel Management (OPM) (http://www.opm.gov/insure/handbook/fehb31.asp#emp).
Several non-profit membership associations offer activities of interest to retired Foreign Service professionals. Diplomatic and Consular Officers Retired (DACOR) and the American Foreign Service Association (AFSA) offer good ways to keep up with friends and remain informed after retirement. The Associates of the American Foreign Service Worldwide (AAFSW) focuses on Foreign Service family members and has a large number of retirees. The Association for Diplomatic Studies and Training (ADST) also welcomes retirees with Foreign Service connections.

RESOURCES

Foreign Service Institute Transition Center
(M/FSI/TC)
George P. Shultz National Foreign Affairs Training Center (SA-42)
Washington, DC 20522-4202
Physical location: 4000 Arlington Blvd., Arlington, VA (do not send mail to this address)
Intranet: http://fsi.state.gov/fsi/tc
Internet: http://www.state.gov/m/fsi/tc

Directions, maps, parking and other information
http://www.state.gov/m/fsi/tc/c16687.htm

Transition Center Career Transition Center
(M/FSI/TC/CTC)
Room E2101
Tel: (703) 302-7407
E-mail: FSICTC@state.gov
Related CTC Training
Financial Management and Estate Planning (RV 103)
Annuities, Benefits, and Social Security (RV 104)
Retirement Planning Seminar (RV 101) – for those within five years of retirement eligibility
http://www.state.gov/m/fsi/tc/c6958.htm

Transition Center Training Division (M/FSI/TC/T)
Foreign Service Life Skills Training
Tel: (703) 302-7268
E-mail: FSITCTraining@state.gov
Related Transition Center Training
Personal Finances and Investments for Foreign Affairs Agency Personnel (MQ 852)
http://www.state.gov/m/fsi/tc/c6950.htm

Office of Retirement (HR/RET)
Room H620, SA-1
Columbia Plaza
2401 E Street, NW
Department of State
Washington, DC 20520
Intranet: http://hrweb.hr.state.gov/ret/Index.html

State Department Federal Credit Union
1630 King Street
Alexandria, Virginia 22314-2745
or
Room 1827, Harry S Truman Building
2201 C Street, NW
Washington, DC
Tel: (703) 706-5000 (both locations)
Toll-free: (800) 296-8882 in the U.S.
Fax: (703) 684-1613
TDD: (703) 519-8360
Internet: www.sdfcu.org
E-mail: sdfcu@sdfcu.org

Credit File Disclosure
www.annualcreditreport.com
Tel: (877) 322-8228 (toll free).
TDD: (877) 730-4104.

Savings Bonds
www.savingsbonds.gov
IRS Publications

www.irs.gov
Individual Retirement Arrangements (IRAs), No. 590
Your Federal Income Tax, No. 17
Tax Information on Selling Your Home, No. 523
Tax Information for Homeowners, No. 530
Rental Property, No. 527
Energy Credits for Individuals, No. 903
Tax Benefits for Older Americans, No. 554

United States Securities and Exchange Commission
www.sec.gov
- Beginners Guide to Mutual Funds
- EDGAR (company reports)
- Information on brokers and brokerages, financial planners, investment advisers
- Office of Investor Education and Assistance (http://www.sec.gov/investor.shtml)

Other Government Financial Education

The U.S. Financial Literacy and Education Commission provides extensive financial education resources at www.mymoney.gov.

www.saveandinvest.org, supported by the Department of Defense and the SEC, offers lots of user-friendly and unbiased financial information geared to military employees.

American Association of Individual Investors
www.aaii.org

529 Plans
www.savingforcollege.com
www.collegesavings.org

Financial Planners
Certified Financial Planner Board of Standards, Inc.
1670 Broadway, Suite 600, Denver, Colorado 80202-4809
Consumer Toll-free Number: 888-CFP-MARK (888-237-6275)
www.CFP.net/learn

Government National Mortgage Association
(Ginnie Mae)
www.ginniemae.gov

National Association of Realtors
http://www.realtor.com/

HUD Library and Information Services
http://www.hud.gov

AFSA's Foreign Service Tax Guide
Updated annually in the *Foreign Service Journal*
Online: www.afsa.org, click on "Tax Guide"

National Council on the Aging
409 3rd Street, SW
Washington, DC 20024
Tel: (202) 479 1200
Internet: http://www.ncoa.org

American Foreign Service Association (AFSA)
2101 E Street, NW
Washington, DC 20005
Tel: (202) 647-8160
(202) 338 4045
Internet: http://www.afsa.org

Thrift Savings Plan
Internet: http://www.tsp.gov

Social Security Administration
Referral toll free number: (800) 772-1213
Internet: http://www.ssa.gov
Field Offices with 800 numbers are distributed throughout the United States. If you state the subject or concern, they will suggest an appropriate publication.

Associates of the American Foreign Service Worldwide (AAFSW)
5555 Columbia Pike, Suite 208
Arlington, VA 22204-3117
Tel: (703) 820-5420
Fax: (703) 820-5421
Email: office@aafsw.org
Internet: http://www.aafsw.org

Diplomatic and Consular Officers Retired (DACOR)
1801 F Street, NW
Washington, DC 20006
Tel: (202) 682 0500
Internet: http://www.dacorbacon.org

AARP
601 E Street, NW
Washington, DC 20049
Tel: (202) 434-2277
Internet: http://www.aarp.org